July 2023 Muni Minute: Strong Demand for Municipals Cuts Through Treasury Headwinds

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Treasury yields marched higher during June as Federal Reserve comments about expected hiking activity for the balance of 2023 continue to cause investors to reassess their interest rate outlooks. The Fed's June mid-month meeting included the release of its latest Summary of Economic Projections (SEP). That SEP surprised the market by showing that the majority of FOMC members expect an additional 50 bps of hikes during the year. For the second month in a row, this hawkishness by the Fed caught the market flatfooted and resulted in upward adjustments to Treasury bond yields. Worth noting, this all took place against the backdrop of the Fed *not* raising rates at this meeting – although they have strongly hinted that a hike at next month's meeting is likely. The biggest yield moves were on the front end of the curve in 2-5 years.

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